

**VIRGINIA STATE BAR**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2011**



## **AUDIT SUMMARY**

Our audit of Virginia State Bar for the year ended June 30, 2011, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and Virginia State Bar's internal financial system;
- no matters involving internal control and its operations necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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## AGENCY HIGHLIGHTS

Virginia State Bar (State Bar) is an administrative agency of the Supreme Court of Virginia and the 75-member Bar Council is the governing body. State Bar's primary mission is the regulation, improvement, and education of members of the legal profession. All persons practicing law in Virginia must be members of State Bar. In addition to other responsibilities, State Bar initiates and prosecutes lawyer disciplinary actions.

State Bar records most of its financial operating activities in the Commonwealth's Accounting and Reporting System (CARS) under the Regulation of Professions and Occupations program. State Bar maintains separate internal records for the Administration and Finance Fund and the Clients' Protection Fund. In addition to its financial operating activities, State Bar transfers funds to affiliated parties for legal defense.

Membership dues provide the State Bar's primary funding for operations. The following table shows State Bar's original budget, final budget, and actual expenses for fiscal year 2011. State Bar received total resources of approximately \$22.7 million in fiscal year 2011, of which \$12.4 million of the dedicated special revenue funds supports State Bar's operations.

### Analysis of Budgeted and Actual Expenses for the Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
General fund	\$ 2,420,000	\$ 2,420,000	\$ 2,420,000
Legal aid services special revenue fund	7,850,000	7,850,000	7,328,747
Dedicated special revenue	<u>12,387,630</u>	<u>12,387,630</u>	<u>11,590,995</u>
Total	<u>\$22,657,630</u>	<u>\$22,657,630</u>	<u>\$21,339,742</u>

*Source: Commonwealth Accounting and Reporting System*

### Analysis of Actual Operating Revenues for the Fiscal Year Ended June 30, 2011

	<u>Revenues</u>	<u>Percent of Total Revenues</u>
Membership fees	\$ 8,950,280	70%
Clients Protection Fund collections	738,367	6%
Fines and costs	539,267	4%
Administration and Finance Fund collections	116,859	1%
Miscellaneous Revenue	<u>2,322,063</u>	<u>19%</u>
Total operating revenues	<u>\$12,666,836</u>	<u>100%</u>

*Source: Commonwealth Accounting and Reporting System*

State Bar used General Fund resources to pay affiliated parties \$2.4 million and the \$7.3 million in the Legal Aid Services Special Revenue fund received from the Circuit Courts from civil court filing fees to pay Legal Services of Virginia for purposes of providing legal defense services to the indigent. See Section "Affiliated Parties" below for more detail. For fiscal year 2011, operating revenues totaled \$12.7 million as detailed above, slightly higher than the \$12.4 million collected the prior year. The increase in revenue resulted from additional membership dues collected over the prior year. The differences between the Clients

Protection Fund and Administration and Finance Fund collections recorded in CARS listed below and the revenues listed in their respective paragraphs below are due to timing differences and accruals.

Operating expenses totaled \$11.6 million in fiscal year 2011 compared to \$10.9 million in the prior year. Most of this increase is the result of new staff, promotions, the three percent bonus for salaried employees, and a full year of retirement contributions. Personnel costs and contractual services account for the majority of expenses. Contractual services primarily consist of costs related to meals provided during meetings, legal services, postage, printing, training, and travel. The following table shows the actual operating expenses by major object for fiscal year 2011.

Analysis of Actual Operating Expenses by Major Object for the Fiscal Year Ended June 30, 2011

	<u>Expenses</u>	<u>Percent of Total Expenditures</u>
Personal services	\$ 7,688,360	66%
Contractual services	2,132,934	18%
Transfer payments	894,698	8%
Continuous charges	677,792	6%
Equipment	136,729	1%
Supplies and materials	<u>60,482</u>	<u>1%</u>
Total operating expenses	<u>\$11,590,995</u>	<u>100%</u>

*Source: Commonwealth Accounting and Reporting System*

Administration and Finance Fund

State Bar records the receipt of the Administration and Finance Fund collections as revenues in the Commonwealth's accounting system and then transfers the amounts collected to a separate account maintained by State Bar. State Bar records all of the Administration and Finance Fund activities in its internal accounting system. This fund accounts for certain meeting revenues and expenses related to the Council, Executive Committee, Annual and Midyear Meetings, and other official functions of State Bar. State Bar's annual and midyear meetings' registration fees generate the Administration and Finance Fund's revenue and pays for the meetings according to the rules of the Supreme Court. During fiscal year 2011, the Fund received \$119,489 in meeting registration fees and interest income and paid \$98,919 in related expenses. As of June 30, 2011, the fund balance was \$339,104.

Clients' Protection Fund

State Bar is the trustee for the Clients' Protection Fund, which compensates clients for injuries or losses resulting from the dishonest conduct of a State Bar member. The Fund originally received a portion of the member dues and member contributions. Currently, the Fund's main sources of revenue include the new mandatory assessment, interest on investments, and reimbursements from attorneys for client settlement payments. During fiscal year 2011, the Clients' Protection Fund collected \$740,561 from mandatory assessments and reimbursements from attorneys, \$62,014 in interest income and net decreases in the fair value of investments, and disbursed \$201,196 in settlements, bank services charges, and attorney fees. As of June 30, 2011, the Clients' Protection Fund had a fund balance of \$5,432,185.

### Affiliated Parties

State Bar also receives appropriations for a Legal Defense program in addition to the operating revenues for the Regulation of Professions and Occupations program. This program receives general and special revenue fund support that State Bar passes through to separate entities. In fiscal year 2011, State Bar transferred all of the general fund appropriations it received to third parties for legal defense.

State Bar transferred \$2.4 million in General Funds to the Legal Services Corporation of Virginia, per the Appropriation Act. The Legal Services Corporation of Virginia provides civil legal services for needy Virginians. In addition to the general funds, State Bar also transfers the special revenue it receives from the Circuit Courts from civil court filing fees to the Legal Services Corporation. In fiscal year 2011, State Bar transferred a total of \$7.3 million in special revenues to the Corporation.

State Bar transferred \$470,000 in General Funds to the Virginia Capital Representation Center, per the Appropriation Act. The Virginia Capital Representation Center is a separately incorporated, not-for-profit corporation with its own board. The Center offers assistance or consultation to death-sentenced inmates and defendants charged with or convicted of a federal or state capital crime in Virginia.

State Bar transferred \$50,000 in General Funds to the Community Tax Law Project in fiscal year 2011, per the Appropriation Act. The Community Tax Law Project provides legal assistance to low income taxpayers and to nonprofit start-up organizations whose mission is to assist low-income individuals.



# Commonwealth of Virginia

## *Auditor of Public Accounts*

Walter J. Kucharski  
Auditor of Public Accounts

P.O. Box 1295  
Richmond, Virginia 23218

March 28, 2012

The Honorable Robert F. McDonnell  
Governor of Virginia

The Honorable Charles J. Colgan  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of **Virginia State Bar** for the year ended June 30, 2011. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System and the internal accounting system of State Bar, review the adequacy of State Bar's internal controls, and test compliance with applicable laws and regulations.

### Audit Scope and Methodology

State Bar's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Revenue  
Expenditures (including payroll)  
Information System Security

We performed audit tests to determine whether State Bar's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of State Bar's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### Conclusions

We found that State Bar properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and the internal accounting system of State Bar. State Bar records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System, State Bar internal accounting system, and accrual basis financial reports prepared by State Bar.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

### Exit Conference and Report Distribution

We discussed this report with management on March 29, 2012.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

DBC/alh



## VIRGINIA STATE BAR

Irving M. Blank - President

George W. Shanks - President -Elect

Jon David Huddleston - Immediate Past President

Karen A. Gould, Executive Director and Chief Operating Officer

## EXECUTIVE COMMITTEE

Tracy Allen Giles

Warren David Harless

Alexander Nicholas Levay

Kevin Edward Martingayle

Sharon D. Nelson

Susan M. Pesner

Nancy Marie Reed

Carson Hobbs Sullivan

John H. Tate, Jr.